

CITY OF OSCEOLA, IOWA

Independent Auditors' Reports
Basic Financial Statements and
Supplemental Information
and Findings

June 30, 2011

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City of Osceola, Iowa
Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Fred P. Diehl	Mayor	December, 2011
Bill Ogbourne	Council Member	December, 2011
Peggy Mateer	Council Member	Resigned March 2011
Sarah Truitt	Council Member	December, 2013
Dr. James Kimball	Council Member	December, 2011
Dr. George Rotiadis	Council Member	December, 2011
Glenn Schaff	Council Member	December, 2013
William Kelly	City Manager	Indefinite
Ty Wheeler	City Clerk/ Treasurer	Indefinite
Mark Elcock	City Attorney	Indefinite

POLLARD AND COMPANY P.C.

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Osceola

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osceola, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osceola as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also included our report on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. The report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparison Information are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Osceola's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the years ended June 30, 2010, 2009 and 2008 and other auditors audited, in accordance with those standards, the financial statements for the years ended June 30, 2007, 2006 and 2005 and unqualified opinions were expressed on those financial statements. None of the prior audits are presented herein. Other supplementary information included in Schedules 1 through 8, including the Schedule of Expenditures of Federal Awards required by U. S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

November 18, 2011

Pollard and Company P.C.

Management's Discussion and Analysis

The City of Osceola provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ending June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Financial Highlights

Government Activities total revenues decreased by \$3,946,494 from the previous fiscal year. This is primarily due to bond proceeds for the 2009 Street Improvement Project and the new fire truck being received in FY 2010.

Government Activities total expenditures increased by \$1,500,166. Capital Project expenditures increased by \$712,976. Public Safety, Public Works, General Government, and Debt Service increased collectively \$845,160. Culture and Recreation, and Community and Economic Development decreased collectively by \$57,970.

The City's total cash basis net assets decreased by \$2,240,376. The General Fund decreased by \$1,022,222. The Employee Benefits fund had an increase of 89,745. The Urban Renewal TIF funds increased collectively by \$842,594. The Casino Reservoir fund increased by \$61,842. The Hotel/Motel Tax fund increased by \$11,870. The Capital Projects funds decreased collectively by \$2,168,474. The Debt Service fund increased by \$26,771. Other Non-major Governmental Funds decreased collectively by \$45,005.

Using This Annual Report

The annual report consists of a series of financial statements as well as other requirements as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statements consists of a statement of activities and changes in cash balances. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements

report the City's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Supplemental Information provides detailed information about the annual budget, non-major governmental funds and debt obligations.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind that limitations resulting from the use of cash basis accounting.

Reporting the City as a Whole

The statement of activities and changes in cash balance presents information showing how the City's cash balances changed during the most recent fiscal year.

The City's governmental activities are displayed in the statements of activities and changes in cash balance. Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.

The business-type activities of the City include the waterworks and sanitary sewer systems. These activities are financed primarily by user fees.

Fund Financial Statements

The fund financial statements begin on page 6 and provide detailed information about individual significant funds; not the City as a whole. Some funds are established by State law and by bond covenants. The City can establish other funds to help it control and manage money for particular purposes.

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. They focus on how money flows into and out of the funds and the balances at year-end that are available for spending. Government funds include 1) General Fund,

2) the Special Revenue Funds such as Road Use Tax, Employee Benefits, Local Option Sales Tax and Tax Increment Funds, 3) the Debt Service Fund, 4) the Capital Projects Fund, and 5) the Permanent Fund. Governmental Funds are reported on the basis of cash receipts and disbursements. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Financial records and reports are prepared on the basis of when cash is received and disbursed. The government fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or few financial resources that can be spent in the near future to finance City programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide statement of activities and changes in cash balance. The City maintains one Enterprise Fund to provide separate information for the sewer fund, considered to be a major fund of the City. The Sewer Fund is divided into several Sub-funds that include the Sewer Operating Fund, Sewer Sinking Fund, Sewer Replacement Fund, Sewer Rehab Fund and the Sewer Reserve Fund.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

Government-Wide Financial Analysis

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased sharply from a year ago, decreasing from \$ 9,353,629 to 7,113,253. The analysis that follows focuses on the change in cash basis net assets of governmental activities.

Change in Cash Basis Net Assets of Governmental Activities (Year End June 30)

Receipts and Transfers:	<u>2011</u>	<u>2010</u>
Program Receipts:		
Charges for services and sales	549,888	636,109
Operating grants, contributions & restricted interest	643,113	472,071
Intergovernmental Revenues	851,193	752,595
General Receipts:		

Property Tax	1,684,372	1,635,881
Tax Incremental Financing Collections	1,781,622	1,057,921
Debt Service	208,578	466,218
Local Option Sales Tax	665,702	933,319
Hotel/Motel Tax	226,085	215,831
Casino Fees	865,590	855,594
Unrestricted Interest	57,754	221,638
Miscellaneous	117,218	385,675
Bond Proceeds	0	3,501,333
Transfers	(463,424)	0
Total Receipts and Transfers	7,187,691	11,134,185
Disbursements:		
Public Safety	925,005	895,638
Public Works	1,516,706	948,194
Culture and Recreation	724,842	734,817
Community and Economic Development	1,261,826	1,309,821
General Government	666,588	614,904
Debt Service	1,547,240	1,351,643
Capital Projects	2,785,860	2,072,884
Total Disbursements:	9,428,067	7,927,901
Increase (decrease) in Cash Basis Net Assets	(2,240,376)	3,206,284
Cash Basis Net Assets Beginning of fiscal year.	9,353,629	6,147,345
Cash Basis Net Assets, End of Fiscal year.	7,113,253	9,353,629

The City's total receipts for governmental activities decreased by thirty five percent (35%) or \$3,946,494. The total cost of all programs and services increased by approximately nineteen percent (23 %) or \$1,500,166. These changes are due primarily to receiving bond proceeds in FY 2010 and expending those proceeds in FY 2011.

The City decreased the property tax levy rate from FY 2010 to FY 2011 by approximately five percent (4.8%). The taxable valuation fell from FY 2010 from FY 2011 by approximately four percent (4.2%) or \$5,495,764.

The cost of all governmental activities in FY 2011 was \$9,428,067 compared to \$7,927,901 in FY 2010 primarily due to funds expended for capital projects. However, receipts from Property Taxes for the General Fund, Employee Benefits Fund, and Debt Service Fund dropped by approximately ten percent (10%) or \$209,149. This is due to the decrease in the tax rate.

Charges in Cash Basis Net Assets of Business-Type Activities

	<u>2011</u>	<u>2010</u>
Receipts		
Program Receipts:		
Sewer Service and sales	921,423	961,411
Water Service and sales	1,419,598	1,465,010
Unrestricted Interest- Water	8,654	15,379
Unrestricted Interest- Sewer	1,546	
Casino Lake Lease- Water	167,350	166,248
Transfer	463,424	
 Total Revenues	 2,981,995	 2,608,048
 Disbursements and Transfers:		
Sewer	1,038,275	1,102,738
Water	1,657,590	1,716,863
 Total Disbursements and transfers	 2,695,865	 2,819,601
 Increase (decrease) in cash balance	 286,130	 (211,553)
 Cash Balance Beginning of Fiscal Year	 664,798	 873,351
 Cash Balance End of Fiscal Year	 947,928	 661,798

Total business-type activity receipts for the FY 2011 year were \$2,981,995 compared to \$2,608,048 in FY 2010. The revenue increase was due primarily to transfers-in made to the water fund that resulted from the reconciliation of the three previous fiscal years.

The City's Individual Major Governmental Fund Analysis

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's funds is to provide information on near-term inflows, outflows, and cash balances of spendable resources. The following are the major reasons for changes in cash balances from the prior year for the City's major funds.

Governmental Funds

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the cash balance in the General Fund was \$ 1,289,401, a decrease of \$1,022,222.

The Employee Benefits Fund is a Special Revenue Fund that accounts for revenues received and expenditures paid in support of employee benefits. The types of revenues received are property taxes assessed for the employer contributions for health insurance, FICA, IPERS, and Unemployment Benefits. Expenditures from the fund include premiums and the employer contributions for FICA, IPERS, and Unemployment Benefits. The fund showed a net gain of \$89,745 during the fiscal year.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation and long-term debt. The City transferred \$ 1,214,792 from other funds to make payments for these obligations. The fund showed a gain of \$26,771 for the fiscal year just completed and has a fund balance of \$26,771, which will be used in future years to pay off debt.

The Casino Special Project Fund is a Special Revenue Fund used to account for contributions and development activities for a new reservoir. At the end of the current fiscal year, the cash balance in this fund was \$3,880,462, an increase of \$61,842.

The Local Option Sales Tax Fund is used to account for the City's sales tax receipt for the Reservoir and the disbursements financed by such. At the end of the current fiscal year, the cash balance in this fund was \$(5,101), a decrease of \$37,497.

The Hotel/Motel Tax Fund is used to account for the City's hotel/motel tax receipts and the disbursements financed by such. At the end of the current fiscal year, the cash balance in the fund was \$11,870, an increase of \$11,870 from the prior fiscal year.

The Capital Projects Fund is used to account for the costs of various projects and the financing thereof. At the end of the current fiscal year, the cash balance in the fund was \$3,904, a decrease of \$2,168, 474.

The Urban Renewal TIF Fund is used to account for the City's tax increment finance receipts and the disbursements financed by such. At the end of the current fiscal year, the cash balance in this fund was \$1,316,313, an increase of \$842,594.

Proprietary Funds

The cash balance of the Sewer Fund decreased by \$115,306. A sewer surcharge increase of \$7.31 went into effect August 1, 2011 to eliminate the operating deficit.

The cash balance of the Water Fund increased by \$401,436. The increase is due primarily to the transfer of funds into the Water Fund during the reconciliation process from previous fiscal years.

Debt Administration

At year-end, the City had approximately \$7,419,264 in General Obligation debt, \$4,010,000 in Annual Appropriation General Obligation Debt, and \$5,025,000 in SFR/Revenue note debt. The City redeemed \$1,533,069 during FY 2011.

	Outstanding Debt at Year-End	
	2011	2010
General Obligation Corporate Purpose, 2009	2,450,000	2,600,000
General Obligation Corporate Purpose and Refunding, 2005	3,990,000	4,360,000
General Obligation Corporate Purpose, 2007	64,000	128,000
Annual Appropriation General Obligation, 2007	4,010,000	4,260,000
Capital Lease, Road Grader, 2009	64,572	79,800
General Obligation Note- Fire Truck, 2010	610,692	751,533
General Obligation Corporate Purpose, 2003	240,000	295,000
SRF- Sewer, 1994	489,000	639,000
SRF- Sewer, 2003	1,785,000	1,907,000
SRF- Water, 2002	2,721,000	2,907,000
Revenue Note, Water, 2007	30,000	60,000

The City didn't levy a Debt Service tax for the fiscal year ending June 30, 2011. The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to five percent (5%) of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation of \$7,416,267 is well below the City's \$12,428,273 legal debt limit.

Economic Factors and Next Year's Budget and Rates

The City's elected and appointed officials and citizens considered many factors when setting the 2012 fiscal year budget, tax rates, and fees that will be charged for various City activities. In addition, return on investments, fuel costs, and the costs of employee benefits are primary concerns in setting a budget.

These factors all contributed when adopting the fiscal year 2012 budget. The City's taxable valuation grew by 19% for FY 2012. As a result, the City was able to hold the property tax rate stable.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ty Wheeler, Osceola Finance Director/City Clerk, Box 465, 115, N Fillmore, Osceola, Iowa 50213.

City of Osceola, Iowa
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2011

Functions/Programs	Program Receipts			
	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities				
Public safety	\$ 925,005	\$ 16,690	\$ 21,583	
Public works	1,516,706	347,913	458,110	329,461
Culture and recreation	724,842	27,993		
Community and economic development	1,261,826		31,004	62,917
General government	666,588	157,292		
Debt service	1,547,240		132,416	
Capital Projects	2,785,860			458,815
Total governmental activities	9,428,067	549,888	643,113	851,193
Business Type Activities				
Sewer	1,038,275	921,423		
Component Unit- Water	1,657,590	1,419,598		
Component Unit- Library Foundation	3,875			
Total	\$ 2,699,740	\$ 2,341,021	\$ 643,113	\$ 851,193
General Receipts				
Property tax levied for				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Hotel/motel tax				
Casino Fees				
Unrestricted interest				
Miscellaneous				
Casino Lease				
Transfers				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash basis net assets				
Restricted :				
Nonexpendable-Cemetery perpetual care				
Expendable:				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				

There were no reconciling items between the Governmental and Fiduciary Fund Statements of Cash Receipts, Disbursements and Changes in Cash Balances and the above Statement. See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis			Discretely Presented Component	
Net Assets			Units	
Governmental Activities	Business Type Activities	Total	Water	Public Library Foundation
\$ (886,732)		\$ (886,732)		
(381,222)		(381,222)		
(696,849)		(696,849)		
(1,167,905)		(1,167,905)		
(509,296)		(509,296)		
(1,414,824)		(1,414,824)		
(2,327,045)		(2,327,045)		
(7,383,873)		(7,383,873)		
	(116,852)	(116,852)	(237,992)	(3,875)
\$ (7,383,873)	\$ (116,852)	\$ (7,500,725)	\$ (237,992)	\$ (3,875)

1,684,372		1,684,372		
1,781,622		1,781,622		
208,578		208,578		
665,702		665,702		
226,085		226,085		
865,590		865,590		
57,754	1,546	59,300	8,654	20,925
117,218		117,218		
			167,350	
(463,424)		(463,424)	463,424	
5,143,497	1,546	5,145,043	639,428	20,925
(2,240,376)	(115,306)	(2,355,682)	401,436	17,050
9,353,629	498,271	9,851,900	163,527	1,211,106
\$ 7,113,253	\$ 382,965	\$ 7,496,218	564,963	1,228,156

\$ 97,643	\$	\$ 97,643		
1,316,313		1,316,313		
26,771	382,965	409,736		
5,429,128		5,429,128		
243,398		243,398		
\$ 7,113,253	\$ 382,965	\$ 7,496,218		

City of Osceola, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2011

	Special Revenue			
	General	Casino Special Project	Employee Benefits	Tax Increment Financing
Receipts				
Property Taxes	\$ 1,156,596	\$	\$ 493,216	\$
Tax Increment Financing				1,781,622
Casino Fees	865,590			
Other City Tax				
Licenses and Permits	74,672			
Use of Money and Property	54,053	61,842		
Intergovernmental	360,465			
Charges for Services	496,799			
Miscellaneous	99,650			
Total Receipts	3,107,825	61,842	493,216	1,781,622
Disbursements				
Operating				
Public Safety	740,278		184,727	
Public Works	922,253		60,824	
Culture and Recreation	634,377		90,465	
Community and Economic Development				538,810
General Government	599,133		67,455	
Debt Service				
Capital Projects				
Total Disbursements	2,896,041		403,471	538,810
Excess (deficiency) of receipts over (under) disbursements	211,784	61,842	89,745	1,242,812
Other financing sources (uses)				
Operating transfers in	34,560			
Operating transfers out	(1,268,566)			(400,218)
Total other financing sources (uses)	(1,234,006)			(400,218)
Net change in cash balances	(1,022,222)	61,842	89,745	842,594
Cash balance (deficit) - beginning of year	2,311,623	3,818,620	400,116	473,719
Cash balance (deficit) - end of year	\$ 1,289,401	\$ 3,880,462	\$ 489,861	\$ 1,316,313
Cash basis fund balances				
Nonexpendable-Cemetery perpetual care	\$	\$	\$	\$
Restricted for:				
Urban renewal purposes				1,316,313
Debt service				
Other purposes		3,880,462	489,861	
Unassigned	1,289,401			
Total cash basis fund balances	\$ 1,289,401	\$ 3,880,462	\$ 489,861	\$ 1,316,313

See notes to financial statements

Special Revenue					
Local Option Tax Reservoir	Hotel/Motel Tax	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
\$	\$	\$	\$ 208,578	\$ 34,560	\$ 1,892,950
					1,781,622
					865,590
665,702	226,085				891,787
					74,672
		4,776			120,671
		458,815		458,110	1,277,390
					496,799
			132,416	17,568	249,634
665,702	226,085	463,591	340,994	510,238	7,651,115
					925,005
				533,629	1,516,706
					724,842
703,199	10,000			9,817	1,261,826
					666,588
			1,529,015	18,225	1,547,240
		2,785,860			2,785,860
703,199	10,000	2,785,860	1,529,015	561,671	9,428,067
(37,497)	216,085	(2,325,970)	(1,188,021)	(51,433)	(1,776,952)
		153,795	1,214,792	108,042	1,511,189
	(204,215)			(101,614)	(1,974,613)
	(204,215)	153,795	1,214,792	6,428	(463,424)
(37,497)	11,870	(2,168,474)	26,771	(45,005)	(2,240,376)
32,396		2,172,378		144,777	9,353,629
\$ (5,101)	\$ 11,870	\$ 3,904	\$ 26,771	\$ 99,772	\$ 7,113,253
\$	\$	\$	\$	\$ 97,643	97,643
					1,316,313
			26,771		26,771
	11,870	939,969		106,966	5,429,128
(5,101)		(936,065)		(104,837)	243,398
\$ (5,101)	\$ 11,870	\$ 3,904	\$ 26,771	\$ 99,772	\$ 7,113,253

City of Osceola, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Fund
As of and for the year ended June 30, 2011

	<u>Sewer</u>
Operating receipts	
Charges for service	\$ 685,283
Surcharge	<u>236,140</u>
Total operating receipts	<u>921,423</u>
Operating disbursements	
Business type activities	<u>631,645</u>
Excess of operating receipts over operating disbursements	<u>289,778</u>
Non-operating receipts (disbursements)	
Interest on Investments	1,546
Capital Projects	(53,163)
Debt service	<u>(353,467)</u>
Total non-operating receipts (disbursements)	<u>(405,084)</u>
Net change in cash balances	(115,306)
Cash balances - beginning of year	498,271
Cash balances - end of year	<u><u>\$ 382,965</u></u>
Cash basis fund balances	
Restricted for debt service	\$ 382,965
Total cash basis fund balances	<u><u>\$ 382,965</u></u>

See notes to financial statements.

City of Osceola, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Fiduciary Funds
As of and for the Year Ended June 30, 2011

NON EXPENDABLE FUND

	<u>Fire Association</u>
Receipts	
Interest	\$ 1,958
Total receipts	<u>1,958</u>
Disbursement- first payment on Fire Truck	<u>(132,416)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(130,458)</u>
Cash balance - beginning of year	<u>177,986</u>
Cash balance - end of year	<u>\$ 47,528</u>

EXPENDABLE FUND

	<u>Library</u>
Receipts	
Interest and contributions	\$ 4,739
Total receipts	<u>4,739</u>
Disbursements	
Culture and Recreation	<u>21,546</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(16,807)</u>
Cash balance - beginning of year	<u>364,559</u>
Cash balance - end of year	<u>\$ 347,752</u>

See notes to financial statements

CITY OF OSCEOLA, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1/ Summary of Significant Accounting Policies

The City of Osceola is a political subdivision of the State of Iowa located in Clarke County. It was first incorporated in 1866 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, public improvements, economic development and general administrative services. The City also provides water, sewer and sanitation services to its citizens.

A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing board and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The financial statements present the City of Osceola (the primary government) and the following component units as discretely presented component units.

The Osceola Municipal Waterworks is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Waterworks is governed by a five member board appointed by the Osceola City council and its operating budget is subject to approval of the city council.

In November 2008, the Osceola Public Library Foundation became an IRC 501(c) 3 organization. The City transferred the non-expendable fiduciary funds which had been received from various bequests to the Foundation. Five out of seven members of the Board are appointed by the City. Therefore, its relationship is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Foundation is presented in a separate column to emphasize that it is legally separate from the City.

In September, 2007, the Osceola Volunteer Firefighters Association became an IRC 501(c) 3 organization. The bequests received by the City designated for that Association are reported as non-expendable fiduciary funds in the financial statements.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards, commissions and 28E agreements, Clarke County Reservoir Commission, Clarke County Assessor's Conference Board, Emergency Management Commission, Clarke County Development Corporation, the Main Street Board, Clarke County Jail and Law Enforcement Center and the Southwest Iowa Coalition .

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in three categories:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Separate Fund Financial Statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Casino Special Project is used to account for contributions and development activities for a new reservoir and regional recreation facility.

The Employee Benefits Fund is used to account for the tax levy and disbursement for the benefits.

The Local Option Sales Tax Fund is used to account for the City's sales tax receipts for the Reservoir and the disbursements financed by such.

The Hotel/Motel Tax Fund is used to account for the City's hotel/motel tax receipts and the disbursements financed by such.

The Tax Increment Financing is used to account for all the City's tax financing resources and the disbursements financed by such.

Capital Projects-The Capital Project Fund was established to account for the costs of various projects and the financing thereof.

Debt Service-The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary fund:

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Osceola maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less restrictive classifications- committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable- Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted- Amounts restricted to specific purposes when constraints places on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned- Amounts the Council intends to use for specific purposes.

Unassigned- All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

2/ Cash and Pooled Investments

The City's deposits at June 30, 2011 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$192,916 pursuant to Rule 2a-7 under the Investment Company Act of 1940. In addition, the City held 1,828 shares of Principal Financial Group, Inc. which was received in the demutualization of that insurance company and is carried at no cost in the financial statements.

Interest Rate Risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but maturities shall be consistent with the needs and use of the City.

Credit Risk – The City's investment in the Iowa Public Agency Investment Trust is unrated.

3/ Bonds and Notes Payable

The annual debt service requirement to maturity for general obligation bonds and notes, and the sewer revenue bonds is as follows:

Year Ending June 30,	Notes		Sewer Revenue Bonds		Primary Government Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	1,075,419	465,383	282,000	74,919	1,357,419	540,302
2013	1,051,680	426,558	293,000	64,322	1,344,680	490,880
2014	1,087,858	388,317	304,000	53,299	1,391,858	441,616
2015	1,124,307	347,780	138,000	41,850	1,262,307	389,630
2016	915,000	301,519	142,000	37,710	1,057,000	339,229
2017-2021	4,670,000	925,021	774,000	122,160	5,444,000	1,047,181
2022-2024	1,505,000	121,948	341,000	15,390	1,846,000	137,338
Total	\$ 11,429,264	\$ 2,976,526	\$ 2,274,000	\$ 409,650	\$ 13,703,264	\$ 3,386,176

Component Unit- Annual debt service requirements to maturity for the water revenue bonds and notes are as follows:

Water Revenue Bonds and Notes

Year Ending		
June 30,	Principal	Interest
2012	222,000	83,070
2013	197,000	75,870
2014	203,000	69,960
2015	210,000	63,870
2016	216,000	57,570
2017-2021	1,180,000	186,750
2022-2023	523,000	23,640
Total	\$ 2,751,000	\$ 560,730

The City has pledged future sewer receipts, net of specified operating disbursements, to repay \$ 4,550,000 in sewer revenue bonds issued in May 1994 and October 2003, respectively. Proceeds were used to provide financing for the construction of improvements to the sewer plant. The obligations are payable solely from sewer customer net receipts and are payable through 2023. The total principal and interest remaining to be paid on the obligations is \$2,683,650. For the current year, principal and interest paid was \$353,467 and total customer net receipts were \$291,298.

The Component Unit has pledged future water receipts, net of specified operating disbursements, to repay \$4,216,000 in water revenue bonds and notes issued May 2002 and February 2007, respectively. Proceeds were used to provide financing for drinking water facilities. The obligations are payable solely from water customer net receipts and are payable through 2023. The total principal and interest remaining to be paid on the obligations is \$3,311,730. For the current year, principal and interest paid was \$313,382 and total customer net receipts were \$347,593.

The resolutions providing for the issuance of the note and bond include the following provisions:

- a. The notes or bonds will only be redeemed from the future earnings of the enterprise activity and the holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to a separate water bond sinking account for the purpose of making the next principal and interest payments.
- c. The City shall establish, impose, adjust and provide for the sewer and water rates to produce gross revenues at least sufficient to leave a balance, after specified operating disbursements, equal to 110% of the principal and interest due in any fiscal year.

During the year, the City increased sewer rates as required by the above resolutions .

4/ Tax Increment Financing

In 2003, the City consolidated seven urban renewal districts into one and established a residential urban renewal area. Subsequently, the CT 8 Western was established in 2008. The City has made agreements with the county, school and other taxing jurisdictions, in accordance with Chapter 403.19 of the Code of Iowa, to divide the increase in taxes, as a result of the incremental property tax valuation in those districts. The taxes so collected are paid into the City's Special Revenue Fund and are to be expended for project costs or debt service associated with the projects affecting the districts.

5/ Local Option Sales Tax

In 2001, the City, Clarke County and the cities of Murray and Woodburn entered into a 28E agreement to build the Clarke County Jail and Law Enforcement Center. The participants committed the 1% local option sales tax passed by the 2000 referendum towards the construction of the facility. During the year ended June 30, 2009, the final payment on the Center was made. The balance in the Local Option Tax LEC fund is committed to be paid for expenditures which benefit County constituents. The activity is reflected as a nonmajor fund.

In 2007, a referendum directed that the taxes earned after January 1, 2008, would be used for the acquisition of land, planning, design, construction, equipping and maintenance, while any project debt is outstanding, for the Clarke County Reservoir Project. The activity is reflected in the Local Option Tax Reservoir Fund as a major fund.

6/ Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2011, 2010, and 2009, and 2008, were \$123,663, \$121,640, and \$107,464, , respectively, equal to the required contributions for each year.

7/ Other Postemployment Benefits (OPEB)

Plan Description- The City participates in a single-employer benefit plan which provides medical/prescription drug and dental benefits for active employees, retirees and their spouses. There are 38 active and no retired members in the plan. Participants must be age 55 or older at retirement. The benefits are provided through a fully-insured plan with United Healthcare. Retirees under age 65 pay the full premium for the benefits while the City contributes to the premium of active employees.

Funding Policy- The City currently finances the retiree benefit plan on a pay-as-you-go- basis. The most recent active member monthly premiums for the City and the plan members are \$422 for single coverage, \$844 for employee and spouse, \$802 for employee and dependent children and \$1,266 for family coverage. The City pays the full cost of the single coverage and 85% of the difference between single coverage and any other coverage the employee elects. The contribution requirements of plan members are established and may be amended by the City. For the year ended June 30, 2011, the City contributed \$358,817 and plan members eligible for benefits contributed \$26,236 to the plan.

8/ Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The liability is computed based on the rate of pay as of June 30, 2011. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2011, primarily relating to the General Fund, was \$136,000.

9/ Landfill Closure and Postclosure Care

The City entered into an agreement with Clarke County and the cities of Murray and Woodburn, as allowed under Code of Iowa Section 28E, to provide for economical and environmentally responsible disposal of solid waste and establish permanent environmental responsibility for the Clarke County Sanitary Landfill. State and federal laws and regulations require the Landfill to place a final cover on the site and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The site closed January 7, 2011 and the City is now using another landfill site on a contract basis. During the year, the City was assessed and paid \$ 201,159 toward its share of the closure and post closure costs.

10/ Lease

The City and the Municipal Waterworks have entered into a renewable lease agreement with Herbst Gaming Inc. for certain real estate surrounding West Lake and the use of the lake in the operation of a casino. As part of the agreement Herbst Gaming paid an initial payment of \$3,200,000 plus will pay 1% of the annual adjusted gross receipts of the casino, commencing in 2012, to the Special Revenue - Casino Special Project Fund to be used for the Clarke County Reservoir Project.

The Municipal Waterworks will receive \$150,000 per year plus a 1% increase per year until lease termination in 2012, offset by certain credits for certain improvements. During the year, the Waterworks received \$167,350.

The City receives 1.25% of the casino's adjusted gambling receipts on a monthly basis. During the year ended June 30, 2011, the City received \$865,590.

11/ Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
Emergency Levy	General	\$34,560
General	Capital Projects	153,795
General	Water	525,404
General	Debt Service	589,367
Road Use	Debt Service	67,054
Motel/Hotel Tax	Road Use	108,042
Motel/Hotel Tax	Debt Service	96,173
Water	Debt Service	392,098
Residential TIF	Debt Service	56,043
Consolidated TIF	Debt Service	344,175

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

12/ Risk Management

a) The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

b) The City is a member of the Iowa Municipalities Workers' Compensation Association (IMWCA) which provides workers' compensation coverage to its members. IMWCA is governed by a board of directors elected by representatives of the governing bodies of each participating governmental jurisdiction. The City has executed a Workers' Compensation Coverage Agreement with IMWCA which extends through June 30, 2011 and has authorized IMWCA to issue general obligation bonds to provide funds to pay claims. During the year ended June 30, 2011, the City paid IMWCA insurance premiums of \$ 57,211.

13/ Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that effect the reported amounts and disclosure of liabilities, contingent liabilities and commitments at the date of the financial statements, and the classification of receipts and disbursements during the reporting period. Actual results could differ from the estimates that were used.

14/ Deficit Fund Balances

At June 30, 2011 the Road Use Tax and Local Option Tax Reservoir Funds had deficit balances of \$104,837 and \$ 5,101, respectively. These deficits will be reduced by future receipts. The deficits in the Sewer Plant Pump, BSNF Building and Depot Capital Project Funds of \$40,660, \$27,826 and \$118,328, respectively, will be reduced by transfers from other funds and/or grants as the projects are completed. The deficits in the Grade Lake and South Fillmore construction of \$ 716,676 and \$32,575, respectively, will be reduced by future bond proceeds and /or transfers from other funds as the projects are completed.

15/ Commitments

At June 30, 2011, the City has entered into engineering and construction contracts for street improvements and other projects totaling \$752,642 which will be paid as work progresses from the proceeds of the bond issued and the General Fund.

16/ Contingent Liabilities

The City is a party in various legal actions brought by or against it. In the opinion of the City's management, the ultimate resolution of these proceedings will not materially affect the cash basis financial position or changes in cash basis financial position of the City.

City of Osceola, Iowa
 Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual
Receipts		
Property Taxes	\$ 1,892,950	\$
Tax increment financing collections	1,781,622	
Other city tax	1,757,377	
Licenses and permits	74,672	
Use of money and property	120,671	1,546
Intergovernmental	1,277,390	
Charges for Service	496,799	921,423
Miscellaneous	249,634	
Total Receipts	<u>7,651,115</u>	<u>922,969</u>
Disbursements		
Public safety	925,005	
Public works	1,516,706	
Culture and recreation	724,842	
Community and economic development	1,261,826	
General government	666,588	
Debt service	1,547,240	
Capital projects	2,785,860	
Business type activities		1,038,275
Total Disbursements	<u>9,428,067</u>	<u>1,038,275</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(1,776,952)</u>	<u>(115,306)</u>
Other financing sources, net	(463,424)	
Balance - beginning of year	9,353,629	498,271
Balance - end of year	<u>\$ 7,113,253</u>	<u>\$ 382,965</u>

See accompanying independent auditors' report.

Component Unit Included in Budget	Budgeted Amounts		
	Net	Original and Final	Final to Net Variance
	\$ 1,892,950	\$ 1,854,111	\$ 38,839
	1,781,622	1,696,500	85,122
	1,757,377	1,229,630	527,747
	74,672	37,400	37,272
176,004	298,221	533,239	(235,018)
	1,277,390	3,341,293	(2,063,903)
1,419,598	2,837,820	5,946,562	(3,108,742)
	249,634		249,634
1,595,602	10,169,686	14,638,735	(4,469,049)
	925,005	952,121	27,116
	1,516,706	4,065,395	2,548,689
	724,842	754,072	29,230
	1,261,826	1,808,692	546,866
	666,588	1,589,348	922,760
	1,547,240		(1,547,240)
	2,785,860		(2,785,860)
1,657,590	2,695,865	5,142,466	2,446,601
1,657,590	12,123,932	14,312,094	2,188,162
(61,988)	(1,954,246)	326,641	2,280,887
463,424			
163,527	10,015,427	12,256,312	(2,240,885)
\$ 564,963	\$ 8,061,181	\$ 12,582,953	\$ (4,521,772)

City of Osceola, Iowa
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2011

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, there were no budget amendments. Therefore, the original budget and the final budgeted amounts are the same..

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the Debt Service and Capital projects functions.

City of Osceola, Iowa
Schedule of Cash Receipts, Disbursements, and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2011

Schedule 1

	Special Revenue			Cemetery Perpetual Care	Total
	Local Option Sales Tax LEC	Emergency Levy	Road Use Tax		
Receipts					
Property tax	\$	\$ 34,560	\$	\$	\$ 34,560
Intergovernmental			458,110		458,110
Miscellaneous				17,568	17,568
Total Receipts		34,560	458,110	17,568	510,238
Disbursements					
Public Works			533,629		533,629
Community and economic development	9,817				9,817
Debt Service			18,225		18,225
Total Disbursements	9,817		551,854		561,671
Excess (deficiency) of receipts over (under) disbursements	(9,817)	34,560	(93,744)	17,568	(51,433)
Other financing sources (uses)					
Operating Transfers In			108,042		108,042
Operating Transfers Out		(34,560)	(67,054)		(101,614)
Total other financing sources (uses)		(34,560)	40,988		6,428
Net change in cash balances	(9,817)		(52,756)	17,568	(45,005)
Cash balance (Deficit) - beginning of year	116,783		(52,081)	80,075	144,777
Cash balance (Deficit) - end of year	\$ 106,966	\$	\$ (104,837)	\$ 97,643	\$ 99,772
Cash basis fund balances (Deficit)					
Nonspendable	\$	\$	\$	\$ 97,643	97,643
Restricted- other purposes	106,966				\$ 106,966
Unassigned			(104,837)		(104,837)
Total cash basis fund balances	\$ 106,966	\$	\$ (104,837)	\$ 97,643	\$ 99,772

See accompanying independent auditors' report.

City of Osceola, Iowa
Schedule of Capital Projects Funds
As of and for the year ended June 30, 2011

Schedule 2

	2009 Paving	Grade Lake	Sewer Plant Pump	South Fillmore
Receipts				
Use of Money and Property	\$ 4,776	\$	\$	\$
Intergovernmental		458,815		
Total Receipts	<u>4,776</u>	<u>458,815</u>		
Disbursements				
Capital Projects	1,525,228	1,175,491	40,660	32,575
Total Disbursements	<u>1,525,228</u>	<u>1,175,491</u>	<u>40,660</u>	<u>32,575</u>
Excess(deficiency) of receipts over (under) disbursements	<u>(1,520,452)</u>	<u>(716,676)</u>	<u>(40,660)</u>	<u>(32,575)</u>
Other financing sources				
Operating transfers in	<u>153,795</u>			
Net change in cash balances	(1,366,657)	(716,676)	(40,660)	(32,575)
Cash balance (Deficit)- beginning of year	2,306,626			
Cash balance (Deficit) - end of year	<u>\$ 939,969</u>	<u>\$ (716,676)</u>	<u>\$ (40,660)</u>	<u>\$ (32,575)</u>
Cash basis fund balances (Deficit)				
Restricted for other purposes	\$ 939,969	\$	\$	\$
Unassigned		(716,676)	(40,660)	(32,575)
Total cash basis fund balances	<u>\$ 939,969</u>	<u>\$ (716,676)</u>	<u>\$ (40,660)</u>	<u>\$ (32,575)</u>

See accompanying independent auditors' report.

BSNF Bldg	BSNF Depot	Total
\$	\$	\$
		4,776
		458,815
		463,591
	11,906	2,785,860
	11,906	2,785,860
	(11,906)	(2,322,269)
		153,795
	(11,906)	(2,168,474)
(27,826)	(106,422)	2,172,378
\$ (27,826)	\$ (118,328)	\$ 3,904
\$	\$	\$
(27,826)	(118,328)	939,969
(27,826)	(118,328)	(936,065)
\$ (27,826)	\$ (118,328)	\$ 3,904

City of Osceola, Iowa
Schedule of Tax Increment Financing Funds
As of and for the year ended June 30, 2011

Schedule 3

	Special Revenue			
	Urban Renewal Consolidated TIF	Residential TIF	CT 8 Western TIF	Total
Receipts				
Tax increment financing collections	\$ 1,175,982	\$ 235,531	\$ 370,109	\$ 1,781,622
Disbursements				
Community and economic development	282,690		256,120	538,810
Excess (deficiency) of receipts over (under) disbursements	893,292	235,531	113,989	1,242,812
Other financing (uses)				
Operating Transfers Out	(344,175)	(56,043)		(400,218)
Net change in cash balances	549,117	179,488	113,989	842,594
Cash balance - beginning of year	219,117		254,602	473,719
Cash balance - end of year	<u>\$ 768,234</u>	<u>\$ 179,488</u>	<u>\$ 368,591</u>	<u>\$ 1,316,313</u>
Cash basis fund balances				
Restricted for Urban Renewal Purposes	\$ 768,234	\$ 179,488	\$ 368,591	\$ 1,316,313
Total cash basis fund balances	<u>\$ 768,234</u>	<u>\$ 179,488</u>	<u>\$ 368,591</u>	<u>\$ 1,316,313</u>

See accompanying independent auditors' report.

City of Osceola, Iowa
Schedule of Indebtedness
For the year ended June 30, 2011

Schedule 4

	Date of Issue	Interest Rates	Amount Originally Issued
<u>Obligation</u>			
<u>Primary Government</u>			
General Obligation Bond and Notes			
General Corporate Purpose	August 1, 2009	1.25-4.40%	\$2,750,000
General Corporate Purpose and Refunding	September 1, 2005	3.50 - 4.00%	5,800,000
General Corporate Purpose	July 24, 2007	4.72%	320,000
General Corporate Purpose	August 1, 2007	4.00 - 5.00%	4,500,000
Capital Lease- Road Grader	September 22, 2009	4.50%	79,800
General Obligation Note - Fire Truck	April 2, 2010	3.36%	751,533
General Corporate Purpose	September 12, 2003	2.50 - 4.30%	500,000
Totals			
Revenue Bonds			
Sewer Revenue Bonds	May 2, 1994	3.00%	1,880,000
Sewer Revenue Bonds	October 27, 2003	3.00%	2,670,000
Totals			
Total City of Osceola			
<u>Component Unit</u>			
Revenue Bonds and Notes			
Water Revenue Bonds	May 14, 2002	3.00%	4,066,000
Water Revenue Notes	February 13, 2007	4.80%	150,000

The accompanying notes to financial statements are an integral part of this statement.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 2,600,000	\$	\$ 150,000	\$ 2,450,000	\$ 92,078
4,360,000		370,000	3,990,000	164,291
128,000		64,000	64,000	6,092
4,260,000		250,000	4,010,000	198,045
79,800		15,228	64,572	2,997
751,533		140,841	610,692	25,181
295,000		55,000	240,000	12,136
<u>\$ 12,474,333</u>	<u>\$</u>	<u>\$ 1,045,069</u>	<u>\$ 11,429,264</u>	<u>\$ 500,820</u>
 \$ 639,000		\$ 150,000	\$ 489,000	\$ 19,170
1,907,000		122,000	1,785,000	57,210
<u>\$ 2,546,000</u>	<u>\$</u>	<u>\$ 272,000</u>	<u>\$ 2,274,000</u>	<u>\$ 76,380</u>
 \$ 15,020,333	<u>\$</u>	<u>\$ 1,317,069</u>	<u>\$ 13,703,264</u>	<u>\$ 577,200</u>
 \$ 2,907,000		\$ 186,000	\$ 2,721,000	\$ 87,210
60,000		30,000	30,000	2,904
<u>\$ 2,967,000</u>	<u>\$</u>	<u>\$ 216,000</u>	<u>\$ 2,751,000</u>	<u>\$ 90,114</u>

City of Osceola, Iowa
Bond and Note Maturities- Governmental
For the year ended June 30, 2011

Schedule 4

Year Ending June 30,	General Corporate Purpose and Refunding		General Corporate Purpose		General Corporate Purpose		General Corporate Purpose	
	Issued August 1, 1998		Issued October 1, 2007		Issued September 12, 2003		Issued July 24, 2007	
	Interest Rates (%)	Amount	Interest Rates (%)	Amount	Interest Rates (%)	Amount	Interest Rates (%)	Amount
2012	3.63	380,000	4.20	260,000	4.00	55,000	4.72	64,000
2013	3.63	395,000	4.30	270,000	4.10	60,000		
2014	3.63	410,000	4.40	280,000	4.20	60,000		
2015	3.75	425,000	4.50	295,000	4.30	65,000		
2016	3.75	435,000	4.60	310,000				
2017	3.80	460,000	4.65	320,000				
2018	3.85	475,000	4.70	335,000				
2019	3.90	495,000	4.75	355,000				
2020	4.00	515,000	4.80	370,000				
2021			4.90	385,000				
2022			4.95	405,000				
2023			5.00	425,000				
2024								
Totals		<u>\$ 3,990,000</u>		<u>\$ 4,010,000</u>		<u>\$ 240,000</u>		<u>\$ 64,000</u>

General Corporate Purpose		Road Grader		Fire Truck		
Issued August 1, 2009		Issued April 2, 2010		Issued April 2, 2010		
Interest Rates(%)	Amount	Interest Rates(%)	Amount	Interest Rates (%)	Amount	Total
2.15	155,000	4.50	15,928	3.36	145,491	1,075,419
2.55	160,000	4.50	16,660	3.36	150,020	1,051,680
2.90	165,000	4.50	17,425	3.36	155,433	1,087,858
3.15	165,000	4.50	14,559	3.36	159,748	1,124,307
3.40	170,000					915,000
3.60	180,000					960,000
3.75	185,000					995,000
3.90	190,000					1,040,000
4.00	200,000					1,085,000
4.10	205,000					590,000
4.20	215,000					620,000
4.30	225,000					650,000
4.40	235,000					235,000
	<u>\$ 2,450,000</u>		<u>\$ 64,572</u>		<u>\$ 610,692</u>	<u>\$ 11,429,264</u>

City of Osceola
Revenue Bond and Note Maturities
For the year ended June 30, 2011

Schedule 6

Sewer Revenue Bonds

	Issued May 2, 1994		Issued October 27, 2003		Total
2012	3.00	156,000	3.00	126,000	282,000
2013	3.00	163,000	3.00	130,000	293,000
2014	3.00	170,000	3.00	134,000	304,000
2015			3.00	138,000	138,000
2016			3.00	142,000	142,000
2017			3.00	146,000	146,000
2018			3.00	150,000	150,000
2019			3.00	155,000	155,000
2020			3.00	159,000	159,000
2021			3.00	164,000	164,000
2022			3.00	169,000	169,000
2023			3.00	172,000	172,000
Totals		<u>\$ 489,000</u>		<u>\$ 1,785,000</u>	<u>\$ 2,274,000</u>

Water Revenue Bonds and Notes - Component Unit

	Water Revenue Bonds		Water Revenue Notes		Total
	Issued May 2, 1994		Issued February 13, 2007		Total
2012	3.00	192,000	4.80	30,000	222,000
2013	3.00	197,000			197,000
2014	3.00	203,000			203,000
2015	3.00	210,000			210,000
2016	3.00	216,000			216,000
2017	3.00	222,000			222,000
2018	3.00	229,000			229,000
2019	3.00	236,000			236,000
2020	3.00	243,000			243,000
2021	3.00	250,000			250,000
2022	3.00	258,000			258,000
2023	3.00	265,000			265,000
Totals		<u>\$ 2,721,000</u>		<u>\$ 30,000</u>	<u>\$ 2,751,000</u>

See accompanying independent auditors' report.

City of Osceola, Iowa
Schedule of Receipts by Source and Disbursements by Function
All Governmental Funds
Last Seven Years

Schedule 7

	2011	2010	2009	2008	2007	2006	2005
Receipts							
Property taxes	\$1,892,950	\$ 2,102,099	\$ 1,895,269	\$ 1,712,784	\$ 1,682,743	\$ 1,592,606	\$ 1,638,777
Tax increment financing collections	1,781,622	1,057,921	1,404,735	789,314	678,536	603,981	513,847
Other city tax	1,757,377	1,149,150	1,091,088	769,961	753,174	552,620	620,895
Licenses and permits	74,672	82,916	12,608	13,051	11,677	15,773	19,346
Use of money and property	120,671	221,638	150,883	357,239	1,382,319	1,197,582	1,041,928
Intergovernmental	1,277,390	1,004,665	905,952	873,023	825,723	851,667	1,003,840
Charges for service	496,799	1,408,787	1,474,333	1,379,026	530,078	435,661	393,136
Miscellaneous	249,634	605,676	114,691	222,955	340,819	915,980	3,382,729
Total	\$ 7,651,115	\$ 7,632,852	\$ 7,049,559	\$ 6,117,353	\$ 6,205,069	\$ 6,165,870	\$ 8,614,498
Disbursements							
Operating							
Public safety	\$ 925,005	\$ 895,638	\$ 806,140	\$ 920,333	\$ 778,792	\$ 748,843	\$ 776,541
Public works	1,516,706	948,194	886,624	1,185,219	1,327,025	1,528,242	1,317,761
Culture and recreation	724,842	734,817	674,463	761,378	829,558	726,759	671,715
Community and economic development	1,261,826	1,309,821	1,712,442	609,503	310,974	165,339	322,661
General government	666,588	614,904	615,453	574,462	919,082	745,378	753,168
Debt service	1,547,240	1,351,643	1,080,663	1,188,129	931,079	2,087,209	502,784
Capital projects	2,785,860	2,072,884	1,471,827	4,172,811	1,629,160	4,152,489	1,483,962
Total	\$ 9,428,067	\$ 7,927,901	\$ 7,247,612	\$ 9,411,835	\$ 6,725,670	\$ 10,154,259	\$ 5,828,592

See accompanying independent auditors' report.

City of Osceola, Iowa
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Schedule 8

Grantor/Program	CFDA Number	Program Expenditures
Pass- Through Program From:		
U.S. Department of Housing and Urban Development		
Iowa Department of Economic Development		
Community Development Block Grants/ State's		
Program and Non-Entitlement Grants in Hawaii	14.228	\$458,815
Federal Aviation Administration		
Airport Improvement Program - Hangars	20.106	11,552
Airport Improvement Program- Taxiway	20.106	142,571
		<u>\$ 612,938</u>

Basis of Presentation-

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City and is presented in conformity with an other comprehensive basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

See accompanying independent auditor's report.

POLLARD AND COMPANY P.C.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osceola, Iowa as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon as dated below. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Osceola's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, we identified a deficiency in internal control over financial reporting, described in Part II of the accompanying Schedule of Findings and Questioned Costs that we considered to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Osceola's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing

Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Osceola's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusion on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City and other parties to whom the City of Osceola may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Pollard and Company P.C.

November 18, 2011

POLLARD AND COMPANY P.C.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH THE MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and Members of the City Council

Compliance

We have audited the compliance of the City of Osceola with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2011. The City's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Osceola complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described on the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses, as defined below.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

The City of Osceola's responses to findings in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusion on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information of the officials, employees and citizens of the City of Osceola and other parties, including and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties

November 18, 2011

Pollard and Company P.C.

CITY OF OSCEOLA, IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

PART I- SUMMARY OF AUDITOR'S RESULTS

- a. An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b. A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- c. The audit did not disclose any non-compliance which is material to the financial statements.
- d. The audit did not disclose any deficiencies in internal control over compliance applicable to the mayor program.
- e. An unqualified opinion was issued on compliance with the requirements applicable to the major program.
- f. The audit did not disclose any findings which are required to be reported in accordance with Circular A-133, Section .510(a).
- g. The major program was CFDA Number 14.228 Community Development Block Grants/ State's Program and Non-Entitlement Grants in Hawaii.
- h. The dollar threshold used to distinguish between Type A and B programs was \$ 300,000.
- i. The City did not qualify as a low-risk auditee.

Part II Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCY:

II-A-11 Segregation of Duties

One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that generally one person has control over each of the following areas:

- (1) Disbursements, check writing, signing, mailing
journalizing and posting.
- (2) Payroll preparation and distribution.
- (3) Bank account reconciliations

Recommendation

The City has been reconciling its bank accounts on a timely basis and has implemented a computerized receipt system. We realize that with a limited number of office employees, further segregation of duties is difficult. The City should continue to obtain the maximum internal control possible under the circumstances.

Response

We are attempting to involve management and department heads to produce more segregation of duties of the above functions. We will continue to review the internal control procedures and continue to segregate duties to the extent possible.

Conclusion

Response accepted.

II-B-11 Invoice Approval

During the year ended June 30, 2011 not all invoices were approved by supervisors.

Recommendation

All invoices should be approved by a supervisor before submitting for payment.

Response

The procedure is already designed in the City's system. There were a few isolated instances where the procedure was not followed as designed. We will attempt to have all invoices approved in the future.

Conclusion

Response accepted.

II-C-11 Reconciliation of Utility Billings and Collections

Utility billings and collections were not reconciled throughout the year. Utility collections were reconciled to deposits. A delinquent account listing was prepared each month.

Recommendation

Procedures should be established to reconcile the utility billings and collections for each billing period. A person independent of the billing system should review the reconciliations.

Response

These procedures will be implemented as recommended.

Conclusion

Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

PART III Findings and Questioned Costs for Federal Awards

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL

No matters were noted.

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-11 Certified Budget

Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the Capital Projects and Debt Service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation

The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response

The budget should have been amended to reclassify other budgeted expenditures to the Debt Service and Capital Project functions. The budget will be amended in the future, as applicable.

Conclusion

Response accepted.

IV-B-11 Questionable Disbursements

We noted no disbursements for parties, banquets or other entertainment expenses that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-11 Travel Expense

We noted no disbursements of City money for travel expenses of spouses of City officials or employees during the year.

IV-D-11 Business Transactions

No business transactions between the City and City officials or employees were noted.

IV-E-11 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-11 Council Minutes

Although minutes of the Council meetings were published some were not published within 15 days as required by Chapter 372.13(6) of the Code of Iowa. Also, they did not always contain the disbursements by fund and did not contain a summary of receipts.

Recommendation

The City should comply with Chapter 372 of the Code of Iowa and include the above in the publications.

Response

During the year ended June 30, 2011, we began complying with the Code requirements after it was reported in the prior year audit.

Conclusion

Response accepted.

IV-G-11

Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.

IV-H-11

Revenue Bonds and Notes

As noted in Note 3, the City did not maintain sufficient rates to service the revenue bonds and notes as required by the resolutions.

Recommendation

The City should periodically determine if rates are sufficient to provide net operating revenues which exceed 110% of the debt service required on the revenue bonds and notes.

Response

The sewer receipts during the year were not sufficient due to a decrease in the usage volume by certain major commercial operations. Sewer rates were increased in August, 2010.

Conclusion

Response accepted.

IV-I-11

Financial Condition

The Road Use Tax, Local Option Tax Reservoir, Sewer Plant Pump, BSNF Building and Depot Capital Project Funds had deficit balances at June 30, 2011.

Recommendation

The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response

Note 14 of the financial statements describes amount of the deficits and the City's plans to eliminate the deficits.

Conclusion

Response accepted.